

Internal Revenue Service
District Director

Department of the Treasury

Post Office Box 1680, GPO
Brooklyn, NY 11202

Date: FEB 28 1997

Person to Contact:

Contact Telephone Number:

Refer Reply to:

Employer Identification
Number:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(4) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated

The purposes for which the corporation was formed are as follows:

"To promote the appropriate and effective allocation of health resources through informed decision-making by purchasers of health services; to contain rising health costs for employers and employees without sacrificing essential health needs; to improve the cost-effective delivery and utilization of medical service; to stimulate price and service competition among health care providers and issuers."

is a membership organization. Its members consist of those companies, labor unions and other organizations, who have a place of business in various cities and towns in and who are purchasers of health care services for the benefit of their employees or members.

The corporation's activities consist of providing purchasing discounts to small employer members and their employees. Products which are available to members through the purchasing discounts include etc.

The entity will receive financial support from initiation fees, membership dues and product surcharges. Product surcharges are placed on products (etc.) developed for members by the corporation.

All funds will be disbursed to support the operation of the administrative office with expenses such as personnel, computer, supplies, etc.

Section 501(c)(4) of the Internal Revenue Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it primarily engages in promoting in some way the common good and general welfare of the people of the community.

The concept of social welfare implies a service or program directed at benefitting the community rather than a private group of individuals.

In *New York State Association of Real Estate Boards Group Insurance Fund v. Commissioner*, 54 T.C., 1325 (1970), the court held that the fund was organized for the benefit of its members only and did not qualify under 501(c)(4) of the Code. The fund was organized to obtain group insurance for its members. The insurance was offered only to a limited class of its members and their employees. Thus, serving the private interests of its members and their employees. Thus, serving the private interests of its members.

Like the organization described above, your organization obtains health care services for its members and their employees. Thus, your services are directed at benefitting a private group of individuals and not the community as a whole.

In Revenue Ruling 73-349, 1973-2 C.B. 179, an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt from tax as social welfare organization under section 501(c)(4) of the Code. The organization received orders from its members, consolidates them and purchases the food in quantity. Each member paid for the cost of his food and a monthly service charge for the operating costs of the organization. The organization operated primarily for the private benefit of its members.

Similar to the organization described in Revenue Ruling 73-349, your organization purchases various health care services at discount rates for its members and their employees.

Revenue Ruling 79-128, 1979-1 C.B. 197, held that a nonprofit organization whose membership is limited to the employees of an employer in a particular municipality and whose primary purpose is to obtain for its members discount prices on merchandise, services and activities is not exempt as a local association of employees under section 501(c)(4) of the Code. The organization

arranges with various businesses to extend discounts to its members on their purchases of specified goods, services, recreational and entertainment activities. The organization was described as a cooperative buying service for its members..

Like the organization described in the ruling above, your organization obtains bulk purchasing discounts for its members for [REDACTED]

Your organization is essentially an mutual, private self-help enterprise organization. The members receive a direct benefit and any benefit to the larger community is not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community. Where the benefit from an organization is limited to that organization's members (except for some minor and incidental benefit to the community as a whole), the organization is not operated exclusively for the promotion of social welfare within the meaning of section 501(c)(4) of the Code.

The activities of your corporation do not benefit the community but rather a private group of individuals - your members and their employees. The organization operated a cooperative buying service for its members.

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(4) of the Code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1580, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours

Harold J. Duff

District Director

cc: 

Enclosure: Publication 892